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RHEFNGB/NGIC INTEL OPS CHARLOTTESVILLE VA//IANG/CE/CECM//
RUCXONI/ONI WASHINGTON DC//32/211//
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RUEHIL/USDAO ISLAMABAD PK
RUCQSAB/USSOCOM INTEL MACDILL AFB FL
RUEHLO/AMEMBASSY LONDON 9789
RUEHNE/AMEMBASSY NEW DELHI 4542
RUEHBUL/AMEMBASSY KABUL 9919
RUEHLH/AMCONSUL LAHORE 6847
RUEHKP/AMCONSUL KARACHI 1164
RUEHPW/AMCONSUL PESHAWAR 5775
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RHEBAAA/DEPT OF ENERGY WASHDC

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TAGS: EAGR ECON ETRD EFIN EINT EINV ENRG PREL PK
SUBJ: BI-WEEKLY REPORT ON THE ECONOMIC ISSUES FROM 25 FEBRUARY 2009

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TOP STORIES
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¶1. (SBU) The Business Recorder reported that the European Union and Pakistan signed a civil aviation agreement on February 24, which allows EU-based airlines to operate flights to Pakistan from any EU state which already has an agreement with Islamabad. "The agreement signed today is good news for both Pakistani and EU airlines as well as for passengers, as it removes the legal uncertainty" from existing bilateral deals, said EU Commission vice-president Antonio Tajani. Legal clarification was necessary because a European court ruled in 2002 that aviation agreements between one EU nation and a non-EU country were discriminatory and in breach of EU law. The EU has negotiated similar accords with 45 countries. Comment: Manzar Jamal, Director Air Traffic, Civil Aviation Authority told ECON on February 25 that General Pervaiz Haider, Additional Secretary Aviation, signed the agreement yesterday. Per the agreement, EU states that do not have a bilateral agreement with Pakistan but which have an agreement with another EU state that has an agreement with Pakistan will be able to fly to Pakistan. Pakistan has aviation

agreements with 18 EU members. Jamal noted that India has had three rounds of negotiations with the EU on this topic but has been unable to reach agreement.

¶2. (SBU) Money sent home by overseas Pakistanis in the first seven months of Pakistani fiscal year 2009 (from July to January) surged to $4.277 billion, an increase of over 18 per cent from the same period in FY 08 ($3.623 billion). The main sources of these funds were the U.S., the U.A.E., Saudi Arabia, and the Gulf Cooperation Council countries (Bahrain, Kuwait, Qatar and Oman). (Comment: We have heard from several GOP and international officials that this surge is not necessarily a positive - it may be an indication that Pakistanis have lost their overseas jobs, particularly in places like Dubai that are experiencing massive layoffs, and are transferring assets prior to returning home. End comment.)

¶3. (SBU) A City District Government of Karachi (CDGK) official told CG Karachi on February 20 that the CDGK municipal services office has begun implementing the city's new "infrastructure tax" on residential and commercial land owners. One million bills had been sent, and an additional 700,000 bills would be sent out over the next few days. He noted that the tax is intended to cover municipal services such as street sweeping and garbage collection, as well as infrastructure improvements including roads, parks, and streetlights. The new fee structure is based on a resolution passed by the Karachi city council in June 2008. The Karachi Water and Sewer Board is also collecting fees for fire protection, street

sweeping and garbage disposal.

¶4. (SBU) The Karachi Stock Exchange closed down 118 points at 5,850 on February 24. The market has hovered between 5,000 and 6,000 points since the beginning of 2009, down approximately two-thirds from its high of more than 15,000 in April 2008. (Comment: The Karachi Stock Exchange fell another 294 points on February 25 to close at 5,580, its sharpest decline since June 2006. The sharp market drops were presumably a market reaction to the deteriorating domestic political situation following the disqualification of opposition leaders Nawaz and Shahbaz Sarif. End Comment.)

Banking and Finance

¶5. (SBU) The February 13 Business Recorder and other papers quoted State Bank of Pakistan (SBP) Governor Syed Salim Raza stating that new SBP initiatives were designed to ease bank liquidity requirements in order to encourage financial institutions to expand microfinancing arrangements. Raza made the comments at the Karachi launching of the "Access to Finance Survey," jointly sponsored by the Swiss Agency for Development Cooperation and the World Bank. (Comment: An SBP spokesperson confirmed the Governor's statement, but added that the SBP had yet to issue any regulations on the issue. End comment.)

¶6. (SBU) According to a Pakistan Bankers' Association (PBA) official, his organization and the International Finance Corporation (IFC) agreed on February 18 to work together to implement sustainable banking principles in Pakistan. Included in their goals are new banking products targeting renewable energy, energy efficiency, micro-finance, financing for women entrepreneurs, and low-income housing loans. They will also promote greater transparency and sustainable development. The PBA and IFC will work together to develop guidelines, tools, and checklists to help Pakistani banks evaluate associated social and environmental risks.

Business

¶7. (SBU) The Cabinet Committee on Privatization recently approved privatization of 21 State owned enterprises. In the Committee meeting, Federal Minister for Privatization Syed Naveed Qamar said that the new privatization policy envisions transfer of 12 percent of shares of all State owned enterprises to the workers of these

entities. He said that the committee approved privatization of

Peshawar Electric Supply Company (Pesco), National Power Construction Company, Faisalabad Electric Supply Company (Fesco) and Kot Addu Power Company (Kapco). It also approved privatization of SME Bank Limited, Pakistan Railways, Heavy Electrical Complex, Pakistan Machine Tool Factory, Pakistan Mineral Development Corporation (PMDC), Marafco Industries, PTDC Motels and Restaurants, Utility Stores Corporation, Pakistan Post, National Insurance Company, Pakistan Reinsurance Company and State Life Insurance Corporation. (Comment: Islamabad 412 reports in more detail on the new privatization policy. End comment.)

¶8. (SBU) Pakistan's trade deficit widened to $10.727 billion during the first seven months (July to January) of the Pakistani 2009 fiscal year, compared to a deficit of $10.357 billion in the same period of the last fiscal year, an increase of 3.5 percent. According to official data released by Federal Bureau of Statistics, Pakistan's exports were $10.934 billion from July to January this year, compared with the exports of $10.122 billion in the same period last year, an increase of 8.02 percent. Approximately 83.5 percent of exports during the first half of the year were rice, cement and chemicals. Approximately 95 percent of imports in the first half of the year were petroleum, fertilizer and wheat. (Comment: An official at the Ministry of Commerce stated that low export growth is due to a number of factors including unprecedented power and gas outages, depreciation of the rupee, increase in cost of capital, and production and capacity constraints. End comment.)

Energy and Power

¶9. (SBU) The Ministry of Petroleum appointed Irfan Qureshi to be the Managing Director of Pakistan State Oil (PSO) on February 24. Qureshi, who will take charge in the next week, is replacing Kalim Siddiqi. Qureshi is currently the Manager of Government Policy and Public Affairs at Caltex (Chevron) Pakistan Limited. Siddiqui has been Managing Director of PSO since October 2008. State-owned PSO is the largest oil marketing company in Pakistan, followed by Shell, Caltex and Total. Comment: A good contact of the Economic Section, Qureshi is a persistent and versatile professional with 30 yeas' experience in sales, marketing, logistics, customer service, and public and government relations.

¶10. (SBU) Pakistan State Oil (PSO) has paid Rs. 5 billion to oil refineries to enable them to place orders for new imports of crude oil, although it still owes them Rs. 63 billion. The Business Recorder reported that the Finance Ministry released this amount after the Petroleum Ministry intervened. Earlier, the Finance

Ministry had released Rs. 6.35 billion to Pakistan Electric Power Company (Pepco) to make payments to PSO. PSO also has reportedly paid Rs. 4.5 billion to oil refineries during the past week. PSO still is owed Rs. 75 billion by its clients, including government agencies.

¶11. (SBU) Pakistan has signed an agreement with the World Bank whereby it will pass future price increases on petroleum products on to consumers, rather than absorbing them as a subsidy, the Business Recorder reported.

¶12. (SBU) According to the Business Recorder, an inter-ministerial committee has been formed to address LPG pricing. The Committee met January 30 and reviewed proposals for setting a uniform LPG price. A tax on locally produced LPG would create a level playing field for LPG importers; the lower price of locally produced LPG compared to imported LPG has hurt importers' business and impedes the flow of LPG imports into the country. A second option under consideration is to waive the general sales tax on imported LGP.

Agriculture

¶13. (SBU) As a step to curb sugar hoarding, the State Bank of Pakistan (SBP) now requires a 50 percent cash margin to finance trade in sugar. The price of sugar has been rising over the last two weeks because demand is high and the supply is low. To discourage sugar hoarding, the SBP cautioned banks and development financial institutions to strictly comply with this regulation. The SBP has instructed banks and development financial institutions that all existing loans or advances against security of sugar stocks (disbursed before the crushing period of 2008) should be fully adjusted not later than March 31, 2009. (Comment: Islamabad 383 reports on the recent forays of the Trading Corporation of Pakistan into the sugar trade. The SBP regulation makes it more expensive for sugar traders to hold onto their sugar stocks, and provides them with a strong financial incentive to move sugar into the market in a timely fashion. End comment.)

Telecommunications

¶14. (SBU) The Director of Economic Affairs for the Pakistan Telecommunications Authority met with Econ the week of February 25, and reported that the once robust sector is suffering due to the economic slowdown. However, telecommunications companies continue

to invest in infrastructure, and the Authority hopes to see growth in the broadband segment of the market. PTA reported that teledensity in Pakistan is approximately 60 percent, with 90 percent of this attributable to cellular phones.

Development

¶15. (SBU) The FATA Development Authority (FDA) provided 196 diplomas on February 23 to students graduating from the Khyber Institute for Technical Education (KITE). The Pakistan Army established KITE in collaboration with the FDA, providing four months of technical education in fields such as basic computing, office automation, basic surveying, auto mechanics, refrigerator/AC repair, and mobile phone repair.

¶16. (SBU) A number of NWFP government officials are urging internally displaced persons (IDPs) to return to their homes in Swat, and have promised them more than Rs. 3.8 million in development aid. Officials promised to provide Rs. 300,000 to the family of every deceased person and Rs. 50,000 to the family of every injured person. The Awami National Party (ANP) has sought donations from the United Nations and international relief bodies, as well as the United Arab Emirates, to rebuild educational institutions, hospitals, bridges, roads and mosques. A Pakistani Army spokesman said on February 23 that the peace deal in Swat would be followed by a comprehensive strategy for development and reconstruction in the area.

FEIERSTEIN